

ASSEMBLY BUDGET COMMITTEE

STATEMENT TO

ASSEMBLY, No. 3201

STATE OF NEW JERSEY

DATED: JUNE 21, 2012

The Assembly Budget Committee reports favorably Assembly Bill No. 3201.

This bill increases the gross income tax rate on annual taxable income exceeding \$1 million beginning with taxable year 2012, but only if legislation is enacted enhancing the homestead benefit.

The bill raises the marginal gross income tax rate on annual taxable income exceeding \$1 million from 8.97% to 10.75%. This means that the bill raises the rate of taxation by 1.78% for each dollar reported above \$1 million.

However, the bill will remain inoperative after enactment until the passage of legislation enhancing the homestead benefit, which has been introduced as Assembly Bill No. 3202 of 2012 and Senate Bill No. 2096 of 2012.

The purpose of the bill is to provide a source of funding for enhancing the homestead benefit. In so doing the bill will support efforts to temper the regressivity of the property tax system for the bulk of New Jersey's property taxpayers, while minimizing the impact of requisite revenue raising to less than two cents of every post-deduction dollar reported over \$1 million in New Jersey's highest tax bracket.

FISCAL IMPACT:

An increase of the top marginal tax rate from the current 8.97% to 10.75% on income above \$1.0 million may raise between \$754 million and \$836 million in FY2013, assuming an effective starting date of January 1, 2012. Part of the estimate is a one-time boost from revenues that would have been collected in the first 6 months of 2012 for FY2012 (between \$186-\$203 million) had the rate increase been enacted before the beginning of the tax year. Accordingly, FY2013 will effectively receive 18 months of revenue. After FY 2013, the estimated amount from such a rate increase would return to a 12-month level, or between \$570 million and \$664 million in FY2014 and between \$597 million and \$728 million in FY2015.

These estimates are based on extrapolations from Tax Year 2009 data from the Statistics of Income, as published on-line by the New Jersey Division of Taxation. Based on reported overall revenue growth, the Office of Legislative Services (OLS) assumes that higher

income taxpayers experienced 20% income growth in TY 2010. For subsequent years, the OLS assumes between 5% and 10% growth income for those taxpayers. Higher income taxpayers have historically seen greater income growth rates than average taxpayers, particularly in years when the stock markets are growing. However, the OLS also notes that due to the volatility of incomes at high levels, the revenue estimates are also subject to significant upward and downward movement. For example, prior to the Great Recession, taxpayers reporting incomes greater than \$1.0 million saw income growth of 17% in Tax Year 2006 and 23% in Tax Year 2007; during the Great Recession that income declined by 21%.